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**BEFORE THE ARIZONA CORPORATION COMMISSION**

MARC SPITZER  
CHAIRMAN  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
MIKE GLEASON  
KRISTIN K. MAYES

In the matter of the Application of	)	Docket No. E-01345A-03-0437
ARIZONA PUBLIC SERVICE COMPANY	)	
for a Hearing to Determine the Fair Value of the	)	
Utility Property of the Company for Ratemaking	)	
Purposes, to Fix Just and Reasonable Rate of	)	<b>NOTICE OF FILING</b>
Return Thereon, to Approve Rate Schedules	)	<b>TESTIMONY</b>
Designed to Develop Such Return, and for	)	
Approval of Purchased Power Contract.	)	

Southwest Energy Efficiency Project, through its undersigned counsel, hereby provides notice that it has this day filed the written testimony of Jeff Schlegel in connection with the above-captioned matter.

Arizona Corporation Commission

**DOCKETED**

SEP 27 2004

DOCKETED BY

CAP

1 DATED this 27<sup>th</sup> day of September, 2004.

2 ARIZONA CENTER FOR LAW IN  
3 THE PUBLIC INTEREST

4  
5 By

  
Timothy M. Hogan

6 202 E. McDowell Rd., Suite 153

7 Phoenix, Arizona 85004

Attorneys for Western Resource Advocates

8 ORIGINAL and 13 COPIES of  
9 the foregoing filed this 27<sup>th</sup> day  
of September, 2004, with:

10 Docketing Supervisor  
11 Docket Control  
12 Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

13 COPIES of the foregoing  
14 transmitted electronically  
15 this 30<sup>th</sup> day of March, 2004, to:

16 All Parties of Record  
17  
18  
19  
20  
21  
22  
23  
24  
25

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

MARC SPITZER, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE COMPANY  
FOR A HEARING TO DETERMINE THE  
FAIR VALUE OF THE UTILITY PROPERTY  
OF THE COMPANY FOR RATEMAKING  
PURPOSES, TO FIX A JUST AND  
REASONABLE RATE OF RETURN  
THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP  
SUCH RETURN, AND FOR APPROVAL OF  
PURCHASED POWER CONTRACT.

DOCKET NO. E-01345A-03-0437

Settlement Testimony of

**Jeff Schlegel**  
**Southwest Energy Efficiency Project (SWEEP)**

September 27, 2004

**Settlement Testimony of Jeff Schlegel, SWEEP  
Docket No. E-01345A-03-0437**

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1 **Introduction**  
2  
3

4 Q. Please state your name and business address.  
5

6 A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive,  
7 Tucson, Arizona 85704-3224.  
8  
9

10 Q. For whom and in what capacity are you testifying?  
11

12 A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEET). I am  
13 the Arizona Representative for SWEET.  
14  
15

16 Q. Please describe the Southwest Energy Efficiency Project.  
17

18 A. SWEET is a public interest organization dedicated to advancing energy efficiency as  
19 a means of promoting both economic prosperity and environmental protection in the  
20 six states of Arizona, Colorado, New Mexico, Nevada, Utah, and Wyoming. SWEET  
21 works on state energy legislation, analysis of energy efficiency opportunities and  
22 potential, expansion of state and utility energy efficiency programs as well as the  
23 design of such programs, building energy codes and appliance standards, and  
24 voluntary partnerships with the private sector to advance energy efficiency. SWEET  
25 is funded primarily by foundations, the U.S. Department of Energy, and the U.S.  
26 Environmental Protection Agency.  
27  
28

29 Q. Did you file testimony in this matter previously?  
30

31 A. Yes. I filed direct testimony on February 3, 2004, and I filed cross-rebuttal testimony  
32 on March 30, 2004. My qualifications are attached to my direct testimony.  
33  
34

35 Q. What is the purpose of your settlement testimony?  
36

37 A. My testimony documents SWEET's position on the settlement agreement, focusing  
38 primarily on the demand-side management (DSM) and energy efficiency provisions,  
39 particularly Section VII.  
40  
41

42 Q. Did you participate in the settlement negotiations?  
43

44 A. Yes. I attended or participated in the settlement conferences, and I worked with APS,  
45 Commission Staff, RUCO, and the other parties to reach the settlement agreement  
46 filed with the Commission.  
47

1 **Summary of Testimony**  
2

3 Q. Does SWEEP support the settlement agreement?  
4

5 A. Yes. The settlement agreement is in the public interest. The settlement was  
6 developed through a fair and inclusive negotiation process, and it represents a  
7 reasonable balancing of the issues in the case and the interests of the parties. The  
8 settlement agreement is supported by almost all parties to the case.  
9

10 Q. Does SWEEP support the energy efficiency and DSM provisions in the settlement  
11 agreement?  
12

13 A. Yes. The increase in energy efficiency efforts, funding, and programs will result in  
14 significant benefits for APS customers, the electric system, the economy, and the  
15 environment. Implementing the energy efficiency and DSM provisions set forth in  
16 the settlement agreement will result in meaningful positive net benefits (benefits that  
17 exceed costs) for APS customers, thereby demonstrating that the provisions are in the  
18 public interest.  
19  
20

21 **Benefits of Increasing Energy Efficiency**  
22

23 Q. What are the benefits of increasing energy efficiency?  
24

25 A. Increasing energy efficiency will provide significant and cost-effective benefits for  
26 APS customers (residential consumers and businesses), the electric system, the  
27 economy, and the environment. Increasing energy efficiency will save consumers  
28 and businesses money through lower electric bills, resulting in lower total costs for  
29 customers. Increasing energy efficiency will also reduce load growth, diversify  
30 energy resources, enhance the reliability of the electricity grid, reduce water use for  
31 power generation, reduce air pollution and carbon emissions, and create jobs and  
32 improve the economy. In addition, meeting load growth through increased energy  
33 efficiency can help to relieve system constraints in load pockets.  
34

35 By reducing electricity demand, energy efficiency mitigates market and fuel price  
36 increases and reduces customer vulnerability to price volatility.  
37

38 Energy efficiency is a reliable energy resource that costs less than other resources for  
39 meeting the energy needs of customers in the APS service territory. The total cost for  
40 energy efficiency savings is 2 to 3 cents per lifetime kWh saved, delivered to the  
41 customer. This is less than the cost of conventional generation, transmission, and  
42 distribution, and significantly less than the total delivered cost of energy from new  
43 natural gas-fired plants.  
44  
45

**Energy Efficiency and DSM Provisions in the Settlement Agreement**

Q. Please describe the key energy efficiency and DSM provisions in Section VII of the settlement agreement.

A. The key energy efficiency and DSM provisions in Section VII, and SWEEP's support for the provisions, are summarized below.

The increase in energy efficiency DSM funding, to \$16 million total annually and \$48 million over 2005-2007, is reasonable and justified given the cost-effective benefits that will be achieved. The increase in the funding level is a valuable and meaningful step towards encouraging and supporting increased energy efficiency for APS customers. The energy efficiency funding level of \$16 million annually would be equivalent to about \$0.65 per month for the average APS residential customer in 2005.

The \$16 million in annual energy efficiency DSM funding will consist of \$10 million in base rates plus at least \$6 million through the DSM adjustment mechanism. APS may request Commission approval for additional DSM program funding that exceeds \$16 million annually, including for demand response and additional energy efficiency programs, thereby providing additional funding flexibility.

The agreement requires low income weatherization funding of at least \$1 million annually, as part of the \$16 million of annual energy efficiency DSM funding (the low income funding is part of the \$10 million of DSM funding in base rates). This is an increase of at least \$500,000 above the current funding level of \$500,000 annually.

The Preliminary Energy Efficiency DSM Plan (Appendix B) is a portfolio of effective and cost-effective energy efficiency programs to achieve meaningful energy savings and demand reductions. The programs will help consumers and businesses adopt cost-effective energy efficiency measures through education, financial incentives, training, technical assistance, and other mechanisms. Implementing the portfolio in the Preliminary Plan will ensure that all customers will have an opportunity to participate in and benefit directly from the energy efficiency programs. APS is required to develop a final plan for Commission review and approval before the programs can be implemented.

In general, I recommend a broad and diverse mix of energy efficiency strategies, not simply consumer rebates, and not just consumer information. The most effective energy efficiency programs employ a combination of strategies targeted to reduce or overcome the key barriers to energy efficiency in the marketplace. The Preliminary Energy Efficiency Plan (Appendix B) includes the comprehensive set of strategies that SWEEP recommends be considered in the detailed program planning process.

APS will have the opportunity to earn a performance incentive based on a share of net economic benefits (benefits minus costs) achieved by the energy efficiency programs,

1 capped at 10% of total spending. This performance incentive is a positive mechanism  
2 to encourage APS to be effective and cost-efficient in administration, program design,  
3 and implementation. The settlement agreement does not provide for the recovery of  
4 net lost revenues, thereby reducing the cost of DSM to ratepayers relative to past  
5 Commission practice.

6  
7 A collaborative working group will be implemented to solicit and facilitate  
8 stakeholder input, advise APS on program implementation, develop future DSM  
9 programs, and review DSM program performance. The collaborative working group  
10 will provide a valuable forum for stakeholder input and review, thereby increasing  
11 "buy-in" and stakeholder support for the cost-effective programs ultimately proposed  
12 to the Commission. SWEEP plans to participate in the collaborative working group.

13  
14 Finally, to ensure effective and appropriate Commission oversight, the settlement  
15 agreement requires that all energy efficiency and DSM programs be reviewed and  
16 pre-approved by the Commission before APS may include program costs in any  
17 determination of total DSM costs incurred.

18  
19  
20 **DSM and Rate Design**

21  
22 Q. Are there provisions in the settlement agreement that address DSM and rate design?

23  
24 A. Yes. Paragraph 57 states that rate designs that encourage energy efficiency,  
25 discourage wasteful and uneconomic use of energy, and reduce peak demand are  
26 integral parts of an overall DSM strategy. The settlement agreement requires APS to  
27 conduct a study analyzing rate design modifications that could achieve these  
28 objectives, including, among others, consideration of mandatory TOU rates and/or  
29 expanded use of inclining block rates. If the study and analysis indicate that the rate  
30 design modifications are reasonable, cost-effective, and practical, APS is required to  
31 develop and propose to the Commission any appropriate rate design modifications.

32  
33 SWEEP supports these improved rate design approaches as valuable complements to  
34 effective energy efficiency policies and programs, but not as replacements for cost-  
35 effective utility energy efficiency programs.

36  
37  
38 **DSM and Competitive Procurement of Resources**

39  
40 Q. Are there additional provisions for DSM in the settlement agreement?

41  
42 A. Yes. According to Section IX on Competitive Procurement of Power, paragraph 78,  
43 APS will issue an RFP or other competitive solicitation(s) seeking long-term future  
44 resources of not less than 1,000 MW for 2007 and beyond. DSM resources will be  
45 invited to compete in the RFP or competitive solicitation, and will be evaluated in a  
46 consistent and comparable manner. According to paragraph 79, Commission Staff



1 will schedule resource planning workshops to develop the competitive procurement  
2 process and to consider whether and to what extent the competitive procurement  
3 should include an appropriate consideration of a diverse portfolio of DSM and other  
4 resources. SWEEP plans to participate in the workshops.  
5

6  
7 **Conclusion**  
8

9 Q. Is the settlement agreement, including the DSM provisions in the agreement, in the  
10 public interest?  
11

12 A. Yes. The settlement agreement is in the public interest, and SWEEP supports the  
13 settlement agreement.  
14

15  
16 Q. Does that conclude your settlement testimony?  
17

18 A. Yes.  
19

Nancy Diggs

220-0276

September 27, 2004 at 11:30

Curious about what you thought of the new plan.

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